

REPORT OF  
FINANCIAL EXAMINATION

**FARMERS MUTUAL INSURANCE COMPANY OF  
WARREN COUNTY**

As Of  
December 31, 2005



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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June 8, 2006  
Warrenton, MO

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

**Farmers Mutual Insurance Company of Warren County**

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 109 East Boones Lick Road, Warrenton, Missouri 63383; telephone number (636) 456-3629. This examination was conducted at the home office in Warrenton, Missouri. The examination began April 24, 2006, and concluded June 8, 2006.

**SCOPE OF EXAMINATION**

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2001, for the period ending December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri. Information provided by the Company's independent accountant was relied upon, including cash and securities confirmations, and the unearned premium calculation.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. **Comment:** Previous Examination Report

The Board should formally adopt a policy manual as instructed in the previous examination.

**Company Response:**

In a letter dated August 16, 2001 the Company stated that a draft of a policy manual had been given to the manager of the Company and Board for review.

**Current Findings:**

Two policy manuals were approved at the November 15, 2001 board meeting. They are a personnel policy manual and a manager and board manual.

2. **Comment:** The Company should continue efforts to reverse the negative trend in the number of policyholders.

**Company Response:**

On June 14, 2001, the Company's membership voted to merge with the Benevolent Association Mutual Insurance Company, of Rhineland, Missouri. The merger was effective December 31, 2001. The Company also appointed a new agent.

**Current Findings:** The number of policies in force has shown a steady increase since the last examination.

## **HISTORY**

### General

The Company was organized on April 24, 1875, as the Private Benevolent Association No.2 of Warren County. In 1890, the Company reorganized and changed its name to Farmer's Mutual Fire Insurance Company of Warren County, Missouri. On September 7, 1939, the Company reorganized and received a Certificate of Incorporation from the Missouri Secretary of State.

Since 1939 several companies have merged into this Company. The first of the mergers occurred in October 1973, when Femme-Osage Mutual and New Hope Mutual Fire Insurance Company merged into the Company. In November 1977, the Holstein Private Benevolent Association was added and in May 1978, the New Melle-Weldon Springs Company was merged into the Company and on December 31, 2001, The Benevolent Association Mutual Insurance Company of Rhineland, Missouri was merged into the Company.

On April 9, 1990, the Company amended its Articles of Incorporation to change to an Extended Missouri Mutual Company (Sections 380.201 through 380.591 RSMo). At that time, the Company received a Certificate of Authority from the Missouri Division of Insurance. On April 9, 1990, the Company amended its Articles of Incorporation to comply with Sections 380.201 to

380.591 RSMo (Extended Missouri Mutual Companies). At that time, the Missouri Department of Insurance issued the Company a Certificate of Authority. On August 11, 2004 the Company amended its Articles of Incorporation to change the date and time of the annual meeting. On February 17, 2005, the Company amended its Articles of Incorporation to change the number of board members.

#### Management and Control

A board of ten directors provides oversight of the Company. Each director serves a three-year term with four directors elected one year, four directors elected the second year and two directors elected the third year. Directors are elected at annual member meetings held on the third Thursday in February. Special meetings of the members may be called by the Board of Directors at any time or upon petition of one-fourth of the members. Board meeting minutes recommend that ten members constitute a quorum at annual member meetings. Absentee ballot voting is not permitted but members may vote by proxy. Currently, neither the Bylaws nor the Articles of Incorporation address the number needed for a quorum. The Bylaws and Articles of Incorporation should be amended to reflect the ten member quorum approved by the Board in accordance with RSMo 380.381.

The Board of Directors consisted of the following members as of December 31, 2005:

<u>Name/Address</u>	<u>Occupation</u>	<u>Term</u>
Fred Vahle, President 711 E. Booneslick Warrenton, MO 63383	County Commissioner	2005 to 2007
Norbert Struckhoff, Vice-President 401 Nona Heights Augusta, MO 63332	Farmer	2005 to 2007
Gerald Schulze 35259 Schulze Road Warrenton, MO 63383	Farmer	2004 to 2006
Glenn Ridder 16777 Ridder Road Marthasville, MO 63357	Farmer	2004 to 2006
Robert Nieder 16470 Garden Drive Marthasville, MO 63357	Retired	2004 to 2006
Howard Lauer 168 Leech Branch Road Rhineland, MO 65069	Farmer	2004 to 2006

Bruce Groeper P.O. Box 267 Wright City, MO 63390	Barber	2006 to 2008
Wendell Massmann 581 Foristell Road Wentzville, MO 63385	Farmer	2006 to 2008
Lelen Paul 501 Joerling Lane Marthasville, MO 63357	Retired	2005 to 2007
Severian Elsenraat 207 Bluff Street Rhineland, MO 65069	Retired	2005 to 2007

#### Conflict of Interest

Signed conflict of interest statements were obtained from all directors. These statements did not disclose any conflicting situations and no apparent conflicts of interest were identified during this examination.

#### Corporate Records

Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. The Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged the previous examination report during its July 17, 2001 meeting. Attendance at the Board and annual meetings appears to be satisfactory.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company has acted to help minimize the risk exposure of the business. The Company has a fidelity bond totaling \$100,000 from St. Paul Travelers Insurance Company. This meets the minimum level recommended by the National Association of Insurance Commissioners. Errors and omissions coverage (aggregate limit of \$1,000,000) must be obtained by each agent. The Company provides a partial reimbursement of their premium. Directors and officers liability coverage, with an aggregate limit of \$2,000,000, is provided by MAMIC Mutual. The Company has a property and liability policy for its home office provided by Grinnell Mutual Reinsurance with limits of \$104,000 on the property and \$500,000 aggregate liability.

## EMPLOYEE BENEFITS AND PENSION PLANS

The Company has two full-time employees; the manager and a secretary and three part-time employees, one bookkeeper and two inspectors. Benefits provided include group health insurance, paid holidays, vacation and sick leave days. The Company has no pension or retirement plan but does allow employees to participate in a Simple IRA with a Company 3% match up to a limit. The Company's agents do not receive a health insurance allowance.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance to operate under Sections 380.201 through 380.591 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm, and liability coverages throughout the state but writes primarily in Warren and surrounding counties. Four agents produce business for the Company and receive a 20% commission on all new business and 12% on renewal premiums. The Company advertises in local newspapers, radio and through various promotional activities in the community. The Company also has a web site.

### Policy Forms and Underwriting Practices

The Company uses policy forms provided through MAMIC by the American Association of Insurance Services (AAIS) and some Grinnell Mutual Reinsurance Company liability forms. The Company issues continuous renewable policies. Inspections are performed by the agents and are completed on all new applications and are then completed every three years.

Most claims are adjusted by Bob Eckert, CCS Adjusting Services, Inc., with agents occasionally adjusting small claims. Payment is made after a satisfactory signed proof of loss is received. Information is gathered for liability claims and forwarded to Grinnell Mutual Reinsurance Company, the reinsurer, for liability coverage.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Admitted Assets	4,641,726	5,160,127	5,303,893	5,485,766	5,748,229
Liabilities	408,582	473,360	435,679	488,905	641,009
Gross Assessments	738,627	811,563	996,075	1,109,089	1,207,369
Losses Incurred	532,345	336,609	455,039	636,933	442,156
Investment Income	259,178	259,805	242,443	223,484	206,523
Underwriting Income	(50,849)	50,400	(15,927)	(53,269)	61,149
Net Income	153,049	257,231	181,446	128,647	110,430
Policies In Force	1,932	2,072	2,229	2,420	2,487

These figures are based on data from annual statements provided by the Company. Losses incurred do not reflect any reinsurance recoveries. These results indicate the Company is growing in terms of premiums written and in the number of policies in force. The net income earned each year is attributed to both strong investment income and positive underwriting results.

## REINSURANCE

### Assumed

The Company does not assume any reinsurance.

### Ceded

The Company has reinsurance through agreement with Grinnell Mutual Reinsurance Company. Various larger risks (those in excess of \$500,000-\$750,000) are covered through facultative agreements with Grinnell. The remaining in force business is covered by the following agreements:

**Individual Occurrence of Loss Limit Reinsurance Agreement** This contract provides that the Company retain the first \$100,000 of loss (wind or fire), each risk, each occurrence. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per \$1,000 at the end of each month during the contract year.

**Aggregate Excess Reinsurance Agreement** This is an unlimited aggregate excess of loss agreement with an attachment point that is calculated yearly. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire risk in force per \$1,000 at the end of each month during the contract year.

**One Hundred Percent (100%) Quota Share Liability Reinsurance Agreement** This agreement cedes all of the Company's liability premium to the reinsurer, who in turn, pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

**One Hundred Percent (100%) Quota Share Earthquake Reinsurance Agreement** This agreement cedes all the Company's earthquake insurance premium to the reinsurer, who in turn, is responsible for all earthquake losses. The Company's ceding commission is built into the formula of the premium that the Company pays.

## ACCOUNTS AND RECORDS

The Company maintains financial records primarily on an automated system. Accounting records for premiums, claims and financial reporting are kept on a mutual insurance company software package from Rural Computer Consultants. A written claims register is also maintained as a backup to the computerized claims system. Cash transactions (premium receipts and checks



written) are posted to the general ledger through a direct interface. Payroll records are maintained on a separate business software package.

Overall, the Company's accounting system appears to be adequate to meet management and financial reporting requirements. A CPA, Kevin Trochtrop, prepares the Company's financial statements, tax returns and annual statement. The annual statement was prepared on an accrual basis and included an unearned premium reserve.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the workpapers for each individual annual statement item.

### ADMITTED ASSETS

Bonds	\$ 2,217,907
Stocks	-
Real Estate	99,801
Cash on Deposit	3,379,663
Computer Hardware	8,146
Federal Income Tax Recoverable	6,703
Accrued Interest Receivable	36,078
<b>Total Assets</b>	<b>\$ 5,748,299</b>

### LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$ 139,144
Ceded Reinsurance Payable	25,562
Unearned Premium	473,211
Liability Write-Ins	3,092
<b>Total Liabilities</b>	<b>\$ 641,009</b>
Guaranty Fund (Note 1)	595,328
Other Surplus	4,511,962
Total Policyholder Surplus	\$ 5,107,290
<b>Total Liabilities and Surplus</b>	<b>\$ 5,748,299</b>

### STATEMENT OF INCOME

Net Assessments (Premiums)	\$ 823,448
Reinsurance Commissions	30,617
Net Losses	(562,833)
Underwriting Expenses	(352,382)
<b>Net Underwriting Income (Loss)</b>	<b>\$ (61,149)</b>
Other Income	53
Net Investment Income	206,523
Federal Income Tax	(34,997)
<b>Net Income</b>	<b>\$ 110,430</b>

## **CAPITAL AND SURPLUS ACCOUNT**

Policyholder Surplus December 31, 2004	\$ 4,996,860
Net Income (reported by the Company)	110,430
Examination Changes (Net)	-
<b>Policyholder Surplus, December 31, 2005</b>	<b><u>\$ 5,107,290</u></b>

## **NOTES TO FINANCIAL STATEMENTS**

There are no notes to the financials.

## **EXAMINATION CHANGES**

There are no examination changes made during this examination.

## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

### **History, Management and Control**

**page 4**

The board should revise the Bylaws to reflect the annual meeting quorum requirements that they have approved in accordance with RSMo 380.381.

## **SUBSEQUENT EVENTS**

The Company manager and board secretary/treasurer, Carol Powelson, resigned effective April 28, 2006. Fred Vahle resigned as a board member and president and assumed the position of manager and board secretary/treasurer. Norbert Struckhoff was elected board president.

## ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Farmers Mutual Insurance Company of Warren County in the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri)

) ss

County of St. Louis City)

I, Arthur Palmer, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.

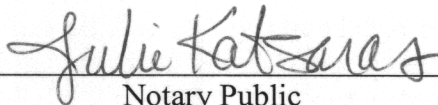


Arthur Palmer, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 15<sup>th</sup> day of June, 2006.

My commission expires:

5/9/2009

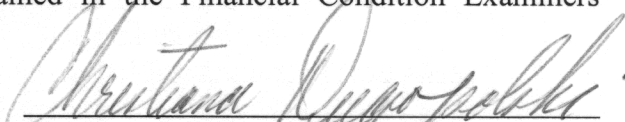


Notary Public

**JULIE KATSARAS**  
Notary Public - Notary Seal  
**STATE OF MISSOURI**  
St. Louis County  
My Commission Expires 5/9/2009  
Commission # 05707910

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Christiana Dugopolski, CPA, CFE  
Audit Manager  
Missouri Department of Insurance

**Farmers Mutual Insurance  
Company of Warren County**

*established 1875*

P.O. Box 448 • 109 E. Booneslick • Warrenton, MO 63383  
636-456-3629 • Toll Free 866-554-5663 • Fax 636-456-3816

August 2, 2006

RECEIVED  
MO INS DEPT  
AUG 07 2006

Mr. Kirk Schmidt, CFE, CPA  
Chief Financial Examiner  
Missouri Department of Insurance  
Harry S Truman Office Bldg., Room 530  
301 West High  
Jefferson City, MO 65101

Dear Mr. Schmidt:

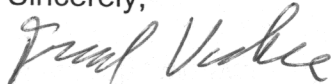
This letter is in response to your letter of July 28, 2006 concerning the Examination Report for our company.

First, we do not have any responses or rebuttals to the comments contained in the draft report of the examination.

Secondly, we would like to report the following actions that have been taken in response to the recommendation made concerning the Bylaws. On May 18, 2006 the Board of Directors reaffirmed the action that was taken at their June 14, 2001 meeting concerning the quorum requirements stated in the Bylaws and directed that the Bylaws be edited (revised) to reflect that decision. Revised copies of the Bylaws reflecting the change were handed out to the Board at their June 15, 2006 meeting.

The actions taken by us in response to the examination may be included in the report.

Sincerely,



Fred Vahle, Manager

*Insure today . . . tomorrow may be too late.*